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TAGS:ETRD,OECD, UNCTAD

SUBJ: POSITION PAPER FOR MEETING OF WORKING PARTY OF

OECD TRADE COMMITTEE, DECEMBER 10-11, 1974

REF: NOV. 27, 1974 OECD TRADE COMMITTEE POSITION PAPER FOR

AGENDA ITEM 1

DELIVER STEPHEN ROGERS BY 9:00 AM DEC. 10

1. USDEL MAY AS APPROPRIATE, COMMEND OECD SECRETARIAT
ON DOCUMENT TFD/TD/813 WHICH WILL SERVE AS BASIS OF
DISCUSSION. ALTHOUGH IN DEPTH DISCUSSION OF DOCUMENT MAY
BE PRECLUDED AT DEC. 10 TCWP MEETING DUE TO (A) ABSENCE OF
FURTHER UNCTAD STUDIES ON INDEXATION AND INTEGRATED
COMMODITY PROGRAM; (B) ABSENCE OF COMMODITY TRADE SPECIAL-

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ISTS; AND (C) INSUFFICIENT TIME FOR CAPITALS TO THOROUGHLY
REVIEW DOCUMENT; OECD STUDY DOES RAISE SEVERAL POINTS
AND QUESTIONS DISCUSSED BELOW WHICH GOVERNMENTS SHOULD TAKE
INTO ACCOUNT IN DEVELOPING POSITIONS FOR THE COMMITTEE ON

COMMODITIES. A PRELIMINARY EXCHANGE OF VIEWS ON THESE ISSUES AT THE CURRENT MEETING WOULD BE USEFUL. SHOULD DISCUSSION OCCUR ON THE OTHER COMMODITY WORK OF THE TCWP, USDEL SHOULD BE GUIDED BY REFERENCED POSITION PAPER.

2. US SUPPORTS SECRETARIAT'S POINT IN PARA 9 THAT IT WOULD BE TACTICALLY USEFUL IN CRITICIZING CONCEPT OF INDEXATION TO RELY PRIMARILY, BUT NOT NECESSARILY EXCLUSIVELY, ON PROBLEMS IDENTIFIED IN UNCTAD STUDY. THESE INCLUDE PROBLEMS WHICH US HAS CONTINUED TO POINT OUT,

AND GIVEN RECEPTIVITY TO STUDY BY LDCS (ALTHOUGH WE SUSPECT THEY WERE MOST RECEPTIVE TO THE REPORT OF THE FINDING) THIS WOULD APPEAR TO BE THE MOST EFFECTIVE PLACE TO START IN ARGUING AGAINST THE ISSUE. (SEE PARAS 7 TO 17 BELOW FOR US POSITION ON INDEXATION.)

3. RE PARA 19 US AGREES THAT IT IS NOT CLEAR WHAT THE NATURE OF THE INTEGRATED PROGRAM IS. HOWEVER, TO ATTEMPT TO EXAMINE THE VARIOUS TECHNIQUES SEPARATELY IS DIFFICULT, SINCE BEYOND SEVERAL GENERAL POINTS WHICH MAY BE MADE ABOUT EACH TECHNIQUE, ABSTRACT DISCUSSION IS LIKELY TO BE FRUITLESS. BECAUSE THE TECHNICAL AND ECONOMIC CHARACTERISTICS OF PRIMARY PRODUCTS ARE DIFFERENT FOR INDIVIDUAL COMMODITIES, SUCH TECHNIQUES SHOULD BE DISCUSSED IN THE CONTEXT OF THEIR APPLICATION TO SPECIFIC COMMODITIES.

4. WITH REGARD TO SUGGESTION IN PARA 26(B) THAT WP DISCUSS WORKINGS OF PROPOSED EC DEFICIENCY PAYMENT SCHEME, US HAS BEEN WATCHING CLOSELY PROGRESS OF EC/ACP NEGOTIATIONS OF THIS SCHEME AND WOULD BE INTERESTED IN AN EC ASSESSMENT. (FYI. US IS WARY OF SCHEME BECAUSE OF POSSIBLE TRADE DISTORTION EFFECTS, IMPLICIT SUPPLY

COMMITMENTS AND QUESTIONS ITS EFFECTIVENESS AS AN AID MECHANISM, BUT US IS NOT LOBBYING AGAINST SCHEME. END
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FYI) IT IS NOT CLEAR IN UNCTAD INTEGRATED PROGRAM DOCUMENT WHETHER COMPENSATORY SCHEME MENTIONED WOULD HAVE OBJECTIVE OF STABILIZING PRICES AT LEVEL OF MEDIUM-TERM TREND (SUCH AS EC SCHEME), OR AS MENTIONED IN INDEXATION STUDY, WOULD BE INDEXED TO STABILIZE PRICES AT LEVEL ABOVE MARKET PRICES.

5. RE PARA 28 ON INTENSIVE CONSULTATIONS, USDEL MAY POINT OUT THAT ISSUE MIGHT ARISE AT COMMITTEE ON COMMODITIES AS TO WHETHER FUTURE AD HOC CONSULTATIONS BE CONVENED FOR THE PURPOSE OF DEALING WITH IMPLEMENTATION OF MORE DETAILED PROPOSALS CONCERNING AN INTEGRATED

COMMODITY PROGRAM. THE US REACTION TO SUCH A RECOMMENDATION WOULD BE NEGATIVE.

6. RE PARA 35 ON INFORMATION PLANS FOR FUTURE SYNTHETIC PRODUCTION, US POSITION REMAINS SAME, BUT IN-DEPTH DISCUSSION SHOULD AWAIT JANUARY TCWP MEETING.

7. USDEL SHOULD DRAW ON FOLLOWING STATEMENTS REGARDING US POSITION ON INDEXATION AND INTEGRATED COMMODITY PROGRAM FOR PURPOSES OF PRELIMINARY COORDINATION WITH OTHER OECD MEMBERS IN PREPARATION FOR EIGHTH SESSION OF UNCTAD

COMMITTEE ON COMMODITIES.

8. US CONSIDERS UNCTAD STUDY ON INDEXATION A RELATIVELY WELL-BALANCED AND TECHNICALLY PROFICIENT STUDY. ALTHOUGH IT ATTEMPTS TO DEMONSTRATE A NEED FOR INDEXATION, IT RECOGNIZES THE DIFFICULTIES INHERENT IN THE CONCEPT. THE STUDY ADDRESSES MANY OF THE TECHNICAL PROBLEMS AND ASSESSES THE ECONOMIC CONSEQUENCES OF INDEXATION SUCH AS ITS EFFECT ON INFLATION AND BALANCE OF PAYMENTS. THE REPORT ALSO ADDRESSES MANY OF THE POLICY, PRACTICAL AND ECONOMIC ISSUES WHICH US AND OTHER DEVELOPED COUNTRIES HAVE RAISED IN PAST AND PRESENTS MATHEMATICAL MODELS TO ILLUSTRATE INDEXATION.

9. THE PRINCIPAL FLAWS OF THE REPORT INCLUDE HASTY CONCLUSIONS REGARDING THE TECHNICAL FEASIBILITY AND DESIRABILITY OF IMPLEMENTATION OF INDEXATION AS WELL AS LIMITED OFFICIAL USE
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JUDGMENTS THAT THE EFFECT ON TRADE, INFLATION AND BALANCE OF PAYMENTS WOULD BE MARGINAL OR WOULD BE OFFSET BY BENEFITS ACCRUING TO THE LDCS.

10. US SUPPORTS THE BASIC OBJECTIVE OF FOSTERING ACCELERATION OF ECONOMIC DEVELOPMENT OF LDCS, AND REALIZES THAT THIS, IN PART, REQUIRES THAT THEY BE ABLE TO IMPORT GOODS ESSENTIAL TO THEIR DEVELOPMENT, BUT US HAS SERIOUS POLICY DIFFICULTIES AND PRACTICAL DOUBTS ABOUT THE USE OF INDEXATION TO SUPPORT THIS OBJECTIVE. SERIOUS POLICY ISSUES INCLUDE:

(A) PROSPECT OF GREATER GOVERNMENT INVOLVEMENT IN TRADE, AND DEPARTURE FROM PRIVATE ENTERPRISE SYSTEM,

(B) EXTENSIVE INTERFERENCE WITH MARKET FORCES OF SUPPLY AND DEMAND WHICH WOULD BE NECESSARY TO IMPLEMENT INDEXATION INCLUDING THE INHIBITION OF NEW PRODUCERS AND SUBSTITUTES, AND THE PROBABLE RESULT OF RESOURCE MISALLOCATION.

(C) THE INEFFICIENCY AND INEQUITY OF RESOURCE TRANSFERS EFFECTED BY INDEXATION (THE STUDY ADVOCATES A COMMODITY-BY-COMMODITY APPROACH, WHERE PRACTICAL, AS ONE OF A BROAD RANGE OF INSTRUMENTS AVAILABLE TO THE INTERNATIONAL COMMUNITY FOR THE IMPLEMENTATION OF GLOBAL COMMODITY POLICY. TO ATTEMPT TO CORRECT ANY INEQUITIES RESULTING FROM A COMMODITY-BY-COMMODITY APPROACH WOULD INVOLVE A

PROLIFERATION OF ADDITIONAL MECHANISMS SUCH AS COMPENSATORY FINANCING SCHEME, WHICH WOULD, IN TURN RISK FURTHER SERIOUS TRADE DISTORTIONS);

(D) THE ADVERSE EFFECT OF INDEXATION ON INFLATION AND BALANCE OF PAYMENTS BY REMOVAL OF THE DISCIPLINE OF A FREE MARKET PRICE MECHANISM;

(E) THE CHOICE BETWEEN STABILIZATION OR PRICE SUPPORT AS AN AIM OF INDEXATION;

(F) THE JUSTIFICATION OF AN INTERNATIONAL INDEXATION SCHEME BY NATIONAL INDEXATION SYSTEMS;
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(G) THE LARGE AND VERY COSTLY ADMINISTRATIVE MACHINERY THAT WOULD BE NECESSARY TO IMPLEMENT ANY INDEXATION SCHEME.

11. EVEN IF THE ABOVE POLICY ISSUES COULD BE RESOLVED, THERE WOULD STILL REMAIN THE VERY DIFFICULT STATISTICAL PROBLEMS OF TRANSLATING AGREED PRINCIPLES INTO OPERATIONAL MEASURES, AS WELL AS THE PRACTICAL PROBLEMS OF IMPLEMENTATION. ALTHOUGH THE UNCTAD STUDY ADDRESSES MANY OF THESE ISSUES, IT CONCLUDES THAT FEASIBLE INDEXES CAN BE DEVELOPED ON THE BASIS OF CURRENTLY AVAILABLE INFORMATION AND FURTHER REFINED AS IMPROVED STATISTICS BECOME AVAILABLE.

12. THE US CONSIDERS THAT THE PROBLEMS OF DEVELOPING FEASIBLE INDEXES BASED ON CURRENTLY AVAILABLE INFORMATION ARE ENORMOUS (DIFFERENCE AMONG UNIT VALUES, FLUCTUATION IN CURRENCY EXCHANGE RATES, QUOTED PRICES AND INDEXES VERSUS ACTUAL TRANSACTION VALUES; LACK OF REPRESENTATIVENESS OF UNIT VALUES FOR MANUFACTURED GOODS, DIFFERENCES IN VALUATIONS OF AN IMPORTED PRODUCT, INABILITY OF UNIT VALUE INDEXES TO REFLECT QUALITY CHANGES IN MANUFACTURED PRODUCTS RESULTING IN AN INFLATIONARY BIAS TO INDEXES, ETC.), AND SUCH INCOMPATIBLE INDEXES WOULD ADD TO THE

SIGNIFICANT MARKET DISTORTIONS INDUCED BY ANY INDEXATION SCHEME IF USED IN ITS IMPLEMENTATION. MOREOVER THERE WOULD APPEAR TO BE A LIMIT TO REFINEMENT AND IMPROVEMENT

OF STATISTICS, DUE TO THE SHEER ENORMITY OF THE EXERCISE, RELIABILITY OF REPORTED STATISTICS AND LEGITIMATE PROTECTION OF CONFIDENTIALITY. SIGNIFICANT ADDITIONAL RESOURCES WOULD BE NEEDED BY INTERNATIONAL ORGANIZATIONS AND GOVERNMENTS TO REFINE AND IMPROVE STATISTICS.

13. FURTHER, TERMS OF TRADE INDICATORS CAN BE BASED ON DIFFERENT SETS OF STATISTICS AND MAY SHOW DIFFERENT RESULTS DEPENDING ON THEIR CONSTRUCTION (BASE YEAR USED; COMPOSITION OF PRODUCTS CONSIDERED; WEIGHTING SYSTEM AND TIME PERIOD COVERED).

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14. ALTHOUGH TERMS OF TRADE INDICATORS AND INDEXATION CAN BE CRITICIZED ON MANY FRONTS, IT SHOULD BE NOTED THAT THE CONCEPT OF TERMS OF TRADE SHOULD NOT BE DISMISSED AS ENTIRELY INVALID. HOWEVER, GIVEN THE ABSTRACT NATURE OF THE CONCEPT AND THE DIFFICULTIES IN ACCURATELY MEASURING TERMS OF TRADE, THE CONCEPT SHOULD BE CONSIDERED AS ONLY ONE AMONG MANY FACTORS IN (1) ASSESSING THE ECONOMIC SITUATION OF COMMODITY PRODUCERS AND CONSUMERS, AND DEVELOPED AND DEVELOPING COUNTRIES, AND (2) DETERMINING THE COSTS AND BENEFITS OF ANY ARTIFICIAL CHANGES IN THE PRICE, SUPPLY AND DEMAND OF INTERNATIONALLY TRADED COMMODITIES.

15. PROBLEMS WOULD ALSO ARISE IN THE ENFORCEMENT OF ANY INDEXATION SCHEME INVOLVING INDIVIDUAL COMMODITY ARRANGEMENTS OR AGREEMENTS SINCE THERE WOULD UNDOUBTEDLY BE MANY INSTANCES, ESPECIALLY IN PERIODS OF SURPLUS, IN WHICH BUYERS AND SELLERS WOULD BE TEMPTED TO TRADE OUTSIDE THE INDEXATION SCHEME. THIS HAS BEEN THE EXPERIENCE OF MANY OF THE VARIOUS COMMODITY AGREEMENTS ALREADY TRIED.

16. OTHER PROBLEMS WOULD ARISE IN TRYING TO PROTECT LDCS WHO IMPORT THE COMMODITIES INDEXED.

17. THE CONCEPT OF INDEXATION MAY ALSO INCLUDE INDIRECT INDEXATION, I.E., NON-REPAYABLE FINANCIAL TRANSFERS FROM DEVELOPED COUNTRIES TO LDCS WHEN SHORTFALLS FROM AGREED EXPORT NORMS OCCUR. THESE WOULD BE AUTOMATIC ON SATISFACTION OF CERTAIN CRITERIA. US SEES ADDITIONAL PROBLEMS FOR INDEXATION IF THIS WERE INCLUDED.

18. WITH REGARD TO THE UNCTAD PROPOSAL FOR AN OVERALL INTEGRATED PROGRAM FOR COMMODITIES (TD/B/498) THE PROPOSAL IS PLACED IN THE FRAMEWORK OF THE IMPLEMENTATION OF THE SIXTH SPECIAL SESSION PROGRAM OF ACTION AND INCORPORATES SEVERAL ELEMENTS ON WHICH THE US MADE SPECIFIC RESERVATIONS AT THE UNGA SPECIAL SESSION (PRODUCERS ASSOCIATIONS,

INDEXATION, MARKET SHARING, COMMODITY AGREEMENTS.)
ALTHOUGH THE US OBJECTS TO THE PROPOSALS BEING JUSTIFIED
BY THE PROGRAM OF ACTION, WE RECOGNIZE WE MUST BE PREPARED
TO ADDRESS PROPOSED INTEGRATED COMMODITY PROGRAM ON ITS
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OWN MERITS.

19. THE SECRETARY-GENERAL'S PAPER IS GENERAL IN CONTENT,
ABSTRACT IN PRINCIPLE AND REPRESENTS AN UNCRITICAL
APPRAISAL OF VARIOUS TECHNIQUES AND MECHANISMS OF COMMODITY
POLICY. THE PROPOSAL IS COMPOSED OF A CONGLOMERATION OF
ELEMENTS THAT HAVE BEEN DEBATED EXTENSIVELY (AND
INCONCLUSIVELY) IN THE PAST: PRICE/QUOTA COMMODITY

AGREEMENTS, BUFFER STOCKS AND THEIR FINANCING, INDEXATION,
DEFICIENCY COMPENSATION SCHEMES, MARKET ACCESS, EXPORT
TAXES, PRICING POLICY, DIVERSIFICATION AND MULTI-COMMODITY
APPROACHES. HOWEVER, THE CURRENT PROPOSAL CALLS FOR A
COMBINATION OF SUCH TECHNIQUES TO DEAL WITH COMMODITY
PROBLEMS RATHER THAN A SINGLE APPROACH FOR COMMODITIES ON
A CASE-BY-CASE BASIS. UNCTAD TDB RES 124(XIV) AUTHORIZED
THE UNCTAD SECRETARY-GENERAL TO FURTHER ELABORATE HIS
PROPOSALS INCLUDING AN ASSESSMENT OF THEIR FEASIBILITY
AND FINANCIAL IMPLICATIONS. AN IN-DEPTH EXAMINATION OF
THE PROPOSED PROGRAM WILL HAVE TO AWAIT SUCH ELABORATION.

20. THE US HAS ARGUED AGAINST MANY OF THE ELEMENTS
CONTAINED IN THE PROPOSAL ON ECONOMIC AND PRACTICAL
GROUNDS, ALTHOUGH WE VIGOROUSLY SUPPORT THE CONCEPTS OF
DIVERSIFICATION INTO PRODUCTS WITH BETTER GROWTH PROSPECTS
AND LIBERALIZED MARKET ACCESS.

21. APART FROM THE US CONCERNS OVER THE EFFICACY AND
PRACTICALITY OF A PROGRAM OF THIS NATURE, THERE IS ALSO
A DISTURBING EMPHASIS ON THE CONCEPT OF PRODUCER ASSOCIA-
TIONS WHOSE OBJECTIVES WOULD BE COORDINATED PRODUCER
ACTION TO REGULATE THE SUPPLIES AND PRICES OF THE
COMMODITIES CONCERNED. PRODUCERS ACTING IN CONCERT AMONG
THEMSELVES CANNOT CLAIM A LEGITIMATE INTERNATIONAL
MANDATE TO DECIDE UNILATERALY FUTURE SUPPLY AND PRICE
OBJECTIVES THAT WOULD BE FAIR TO CONSUMERS AS WELL AS
PRODUCERS. IN CONTRAST, THE TRADITIONAL STANDARDS GOVERN-
ING INTERGOVERNMENTAL INTERVENTION IN INTERNATIONAL
COMMODITY TRADE MAKE PROVISION TO PROTECT CONSUMERS'
(INCLUDING LDC CONSUMERS) AS WELL AS PRODUCER'S INTERESTS
THROUGH THEIR PARTICIPATION IN ANY PRICE/SUPPLY REGULATION
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SCHEME.

22. THE US ALSO QUESTIONS THE FEASIBILITY OF A MULTI
COMMODITY APPROACH TO COMMODITY POLICY. THE TECHNICAL
AND ECONOMIC CHARACTERISTICS OF PRIMARY PRODUCTS ARE
DIFFERENT FOR INDIVIDUAL COMMODITIES, THUS WE FIND IT
DIFFICULT TO ENVISION ANY ARRANGEMENTS WHICH WOULD BE
APPLICABLE FOR GROUPS OF COMMODITIES. KISSINGER

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